

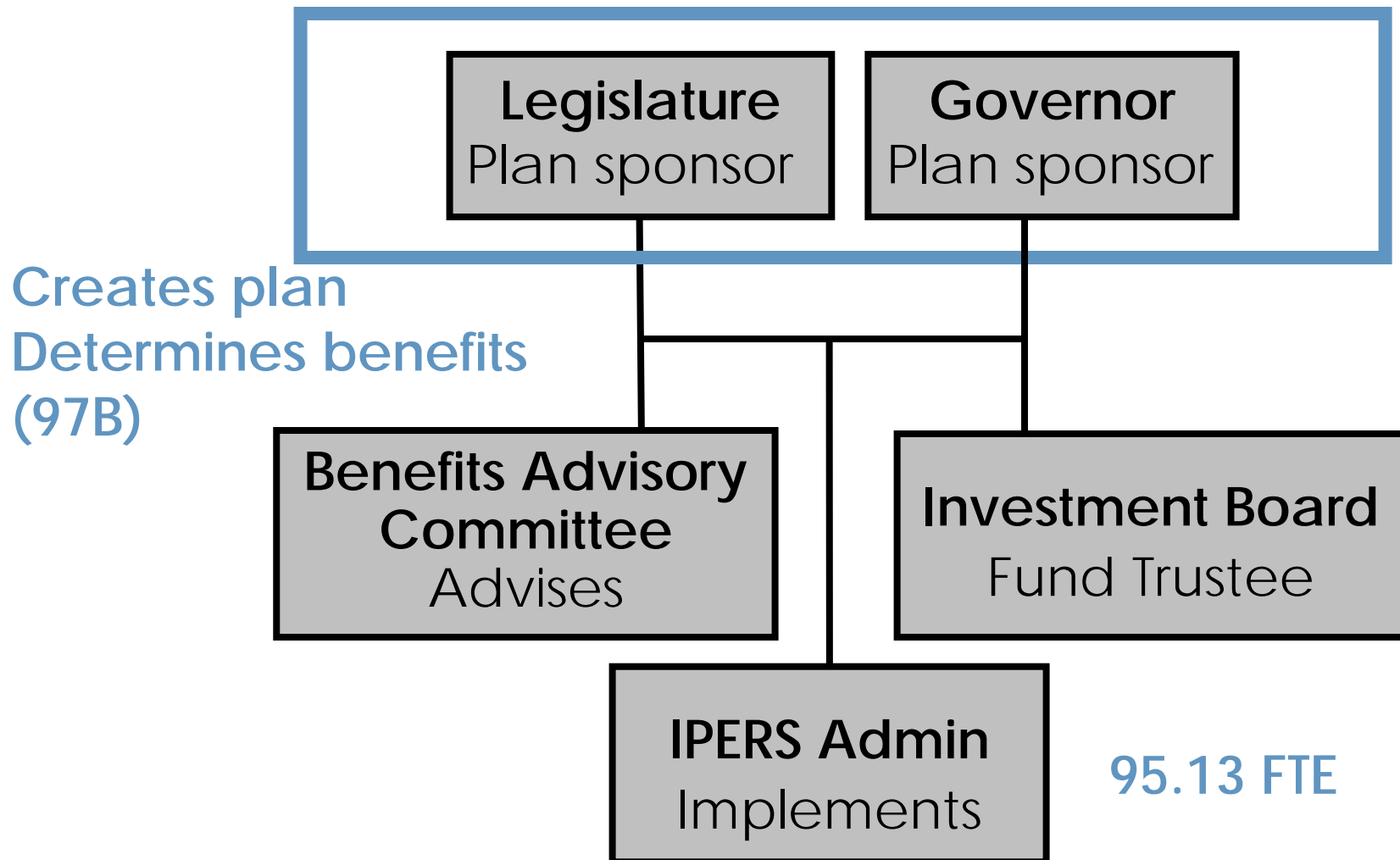
Public Retirement Systems Committee  
November 9, 2009



Donna M. Mueller, CEO

# IPERS Update

# Who decides what?





*...admit that the  
waters around  
you have grown...  
better start  
swimmin' or  
you'll sink like a  
stone, for the  
times they are  
a-changin'.*

~Bob Dylan



Any solution must  
preserve IPERS as  
a defined benefit  
retirement plan

Benefits Advisory Committee on  
balancing IPERS' long-term funding

Defined benefit plan  
that works with  
Social Security and  
own savings



# Purpose: help employers



- Attract and retain good employees
- Fill critical positions
- Benefit grows with length of employment

# Purpose: secure income



- Care for self in retirement
- Core benefit
- Lifetime monthly payment
- Disability & death benefits

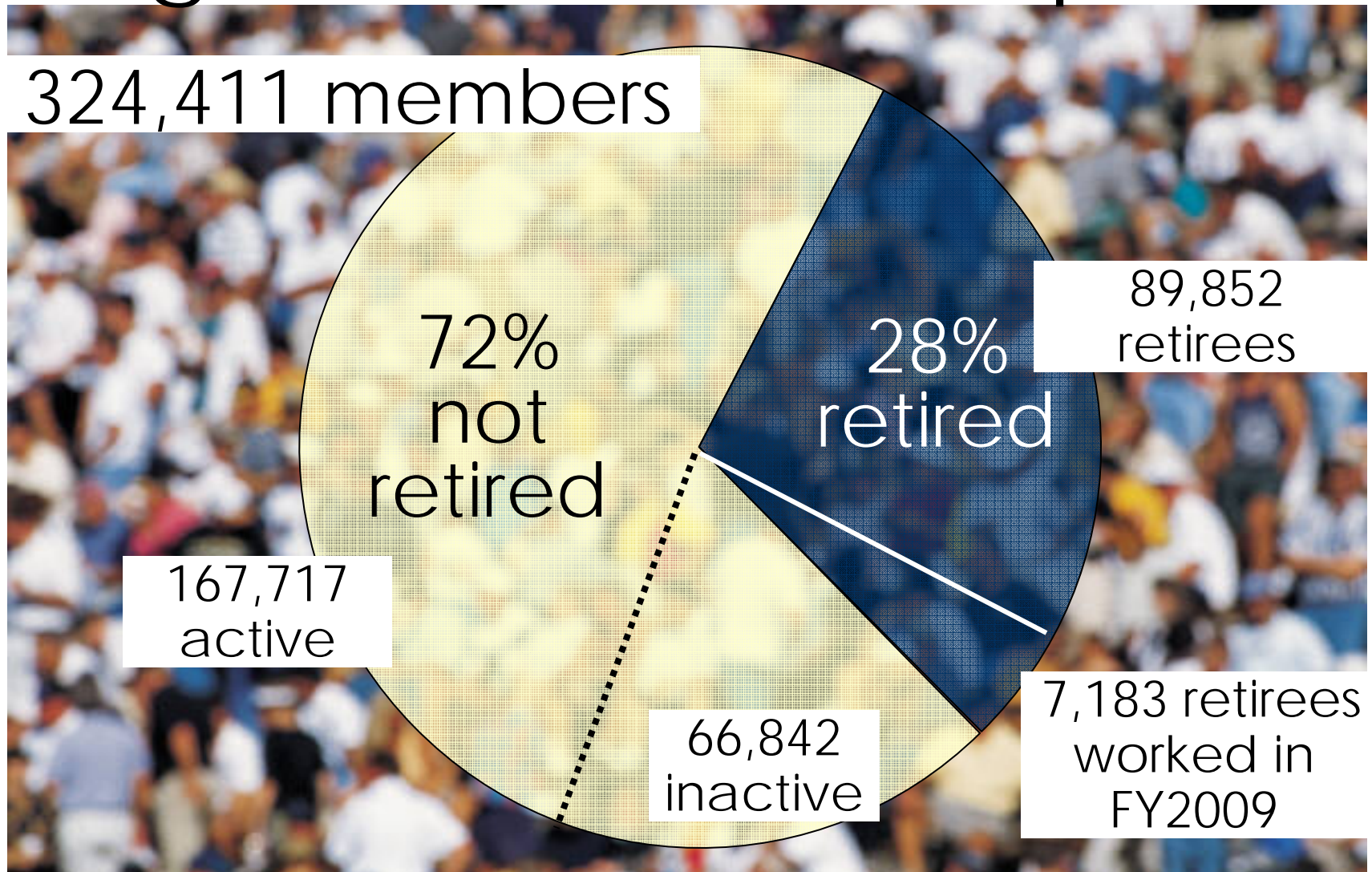


A silhouette of a construction worker wearing a hard hat and pushing a wheelbarrow, set against a light green background. The worker is on the left, facing right, with the wheelbarrow in front of them.

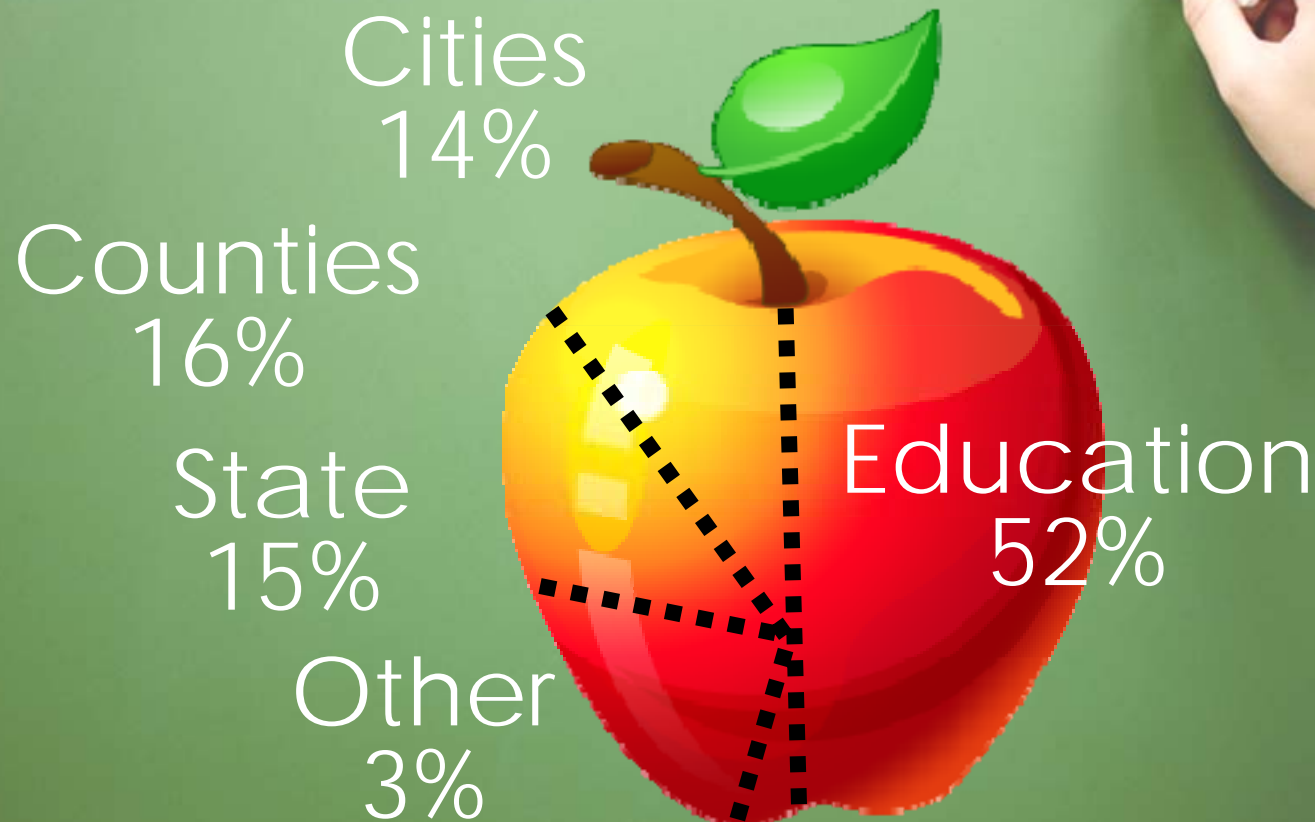
# How IPERS works



# Large resource & risk pool



167,717 active members



# IPERS Trust Fund

Employer contributions

Employee contributions

Pooled  
and  
invested





# Diversified portfolio

## Asset allocation targets

Core plus fixed income

34%



Domestic equity  
28%



International equity  
15%



Private equity  
10%



Real estate  
8%

High-yield  
fixed income  
5%



June 30, 2009

# Income by source

1999–2008



Contributions  
29.9%

(Employees 12.2%)  
(Employers 17.7%)



Investments  
70.1%

# Prefund, not pay-as-you-go

## Prefund benefits

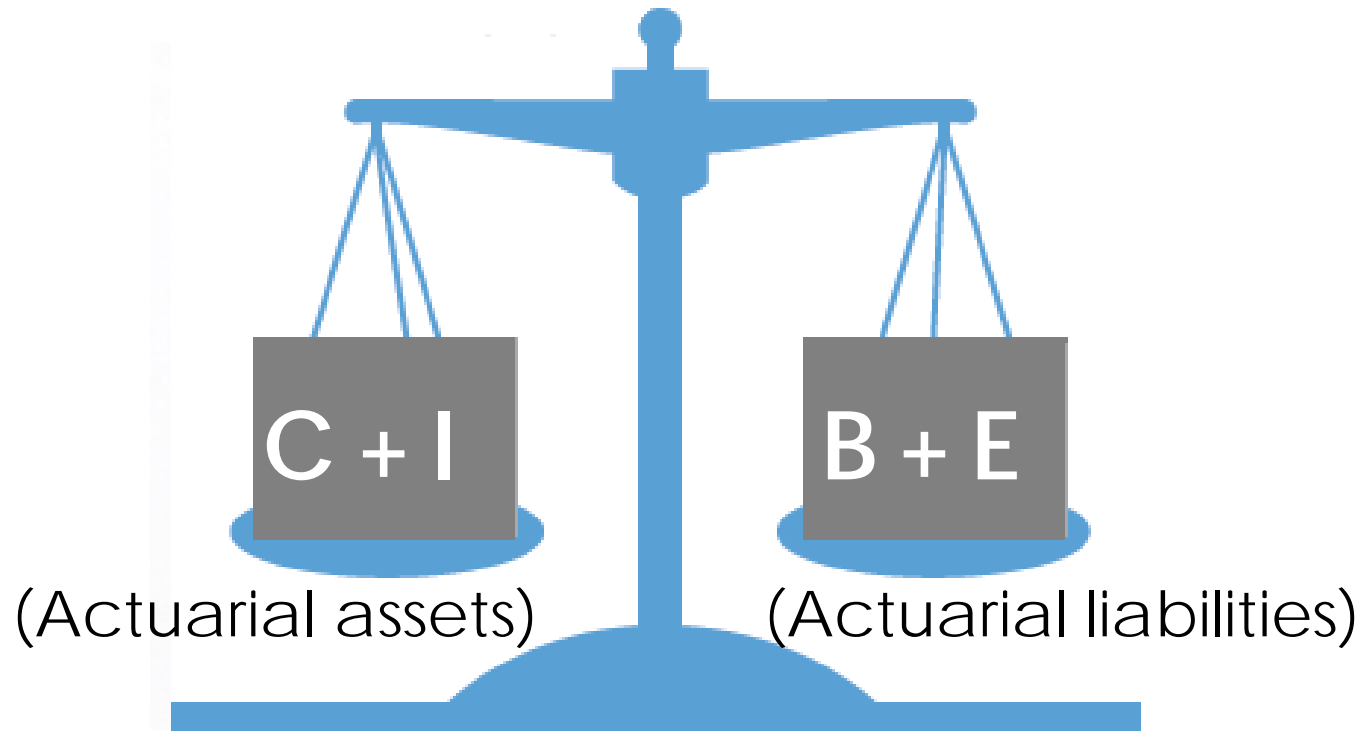


Current  
employees  
contribute  
for their own  
*future*  
retirements



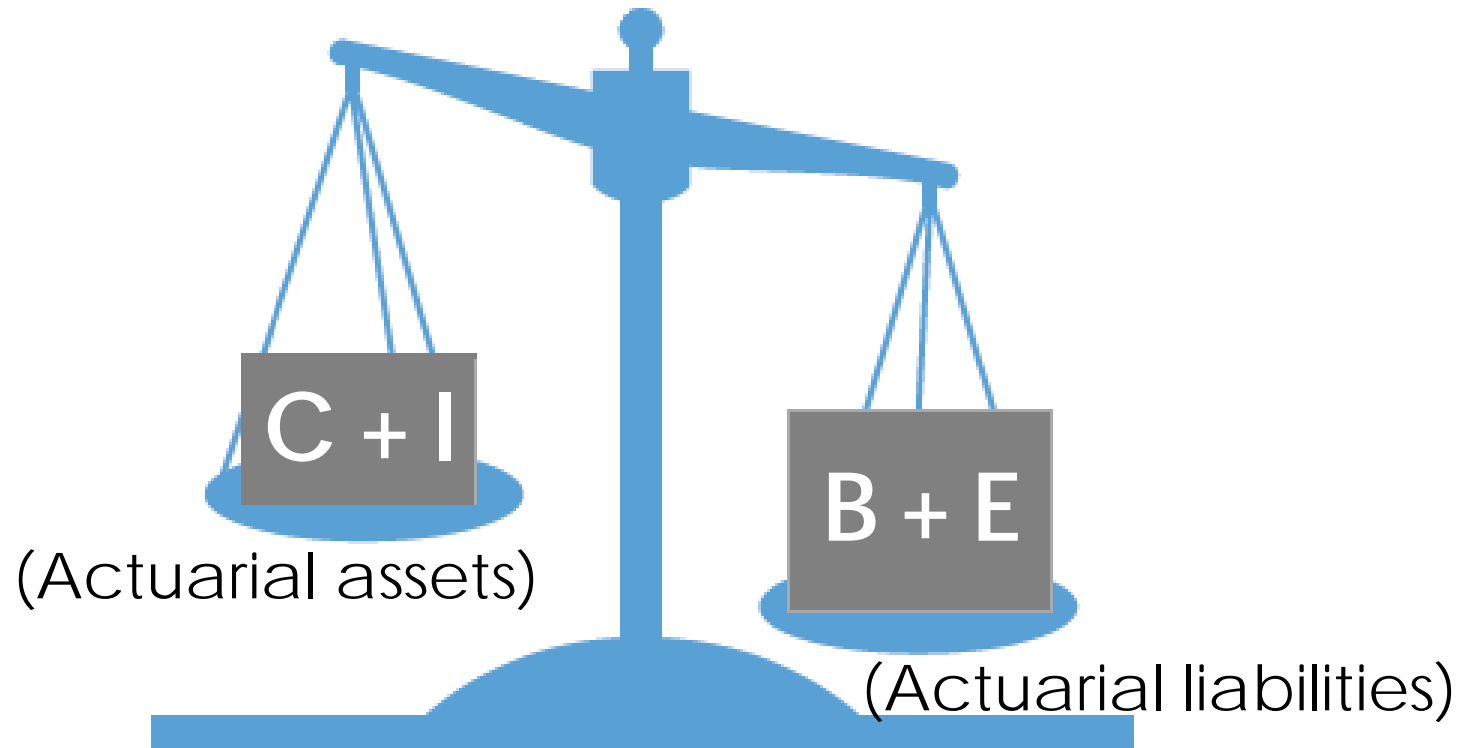
# Long-term funding formula to prefund benefits

Contributions + Investments = Benefits + Expenses





# IPERS' projected long-term funding



# Contribution “holidays” hurt

Rate for regular members set in law lower than actuarial rate

95% of membership



Added \$762 million to UAL in 7 yrs

# Woulda, coulda, shoulda

BAC 2004 recommendation

- Increase contribution rate 4 percentage points
- Start FY2006
- Would be the first rate increase for regular members since 1979



# Work in Progress

Law change 2006

- Contribution rate increase of 2 percentage points
- Phased in over 4 years
- Start FY2008



# More Progress

## Law change 2008

- IPERS to adjust rates starting FY2012
- Annual change limited to 0.5 percentage point





It doesn't  
work to leap  
a twenty-  
foot chasm  
in two ten-  
foot jumps.

American Proverb

# Contributions still lagging

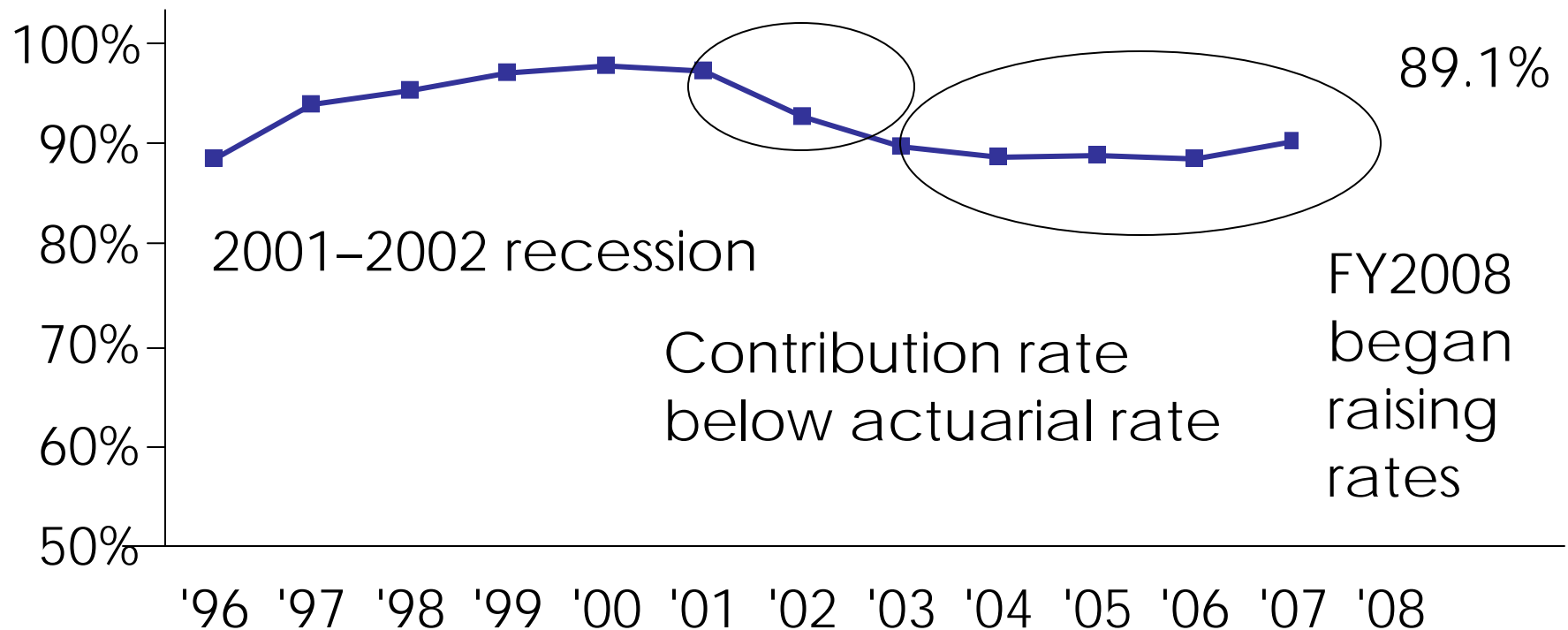
	Contribution Rate FY2010	Actuarial Rate FY2010	Percent Funded FY2008
Regular members	10.95%	12.34%	88.4%
Special Service members*			
<b>Sheriffs and deputies</b>	15.24%	15.24%	101.6%
Protection occupations	15.34%	15.34%	105.2%

\*Benefits for Special Service members are higher than those for regular members.



# Funded ratio

(actuarial assets ÷ actuarial liabilities)



# Unfunded actuarial liability



FY2008 UAL  
\$2.665 billion

Amortization: infinity

Bad is never good  
until worse happens.

Danish Proverb





# Global Recession

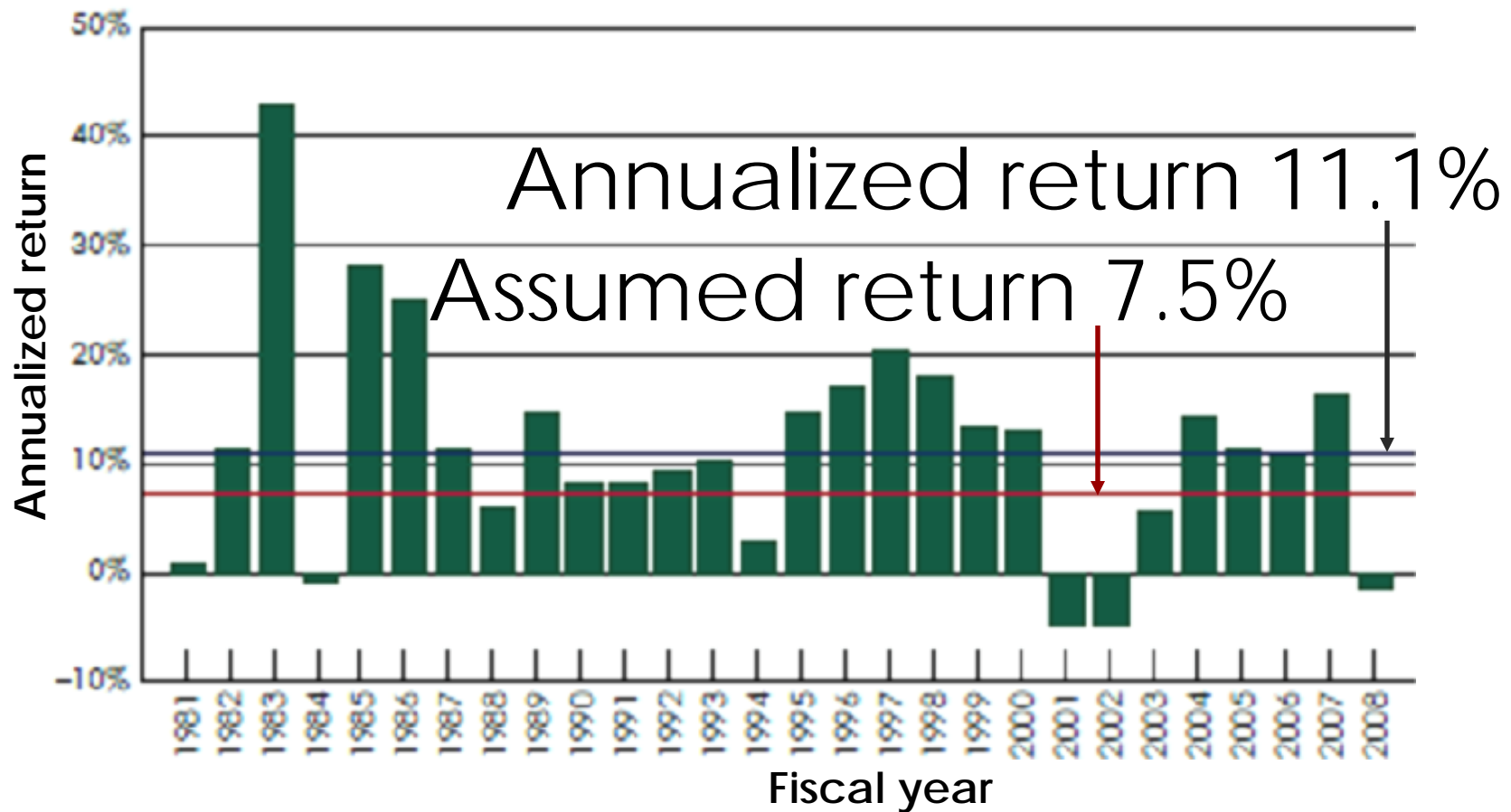


FY2009 UAL  
\$4.895 billion

Amortization: infinity  
(and beyond)

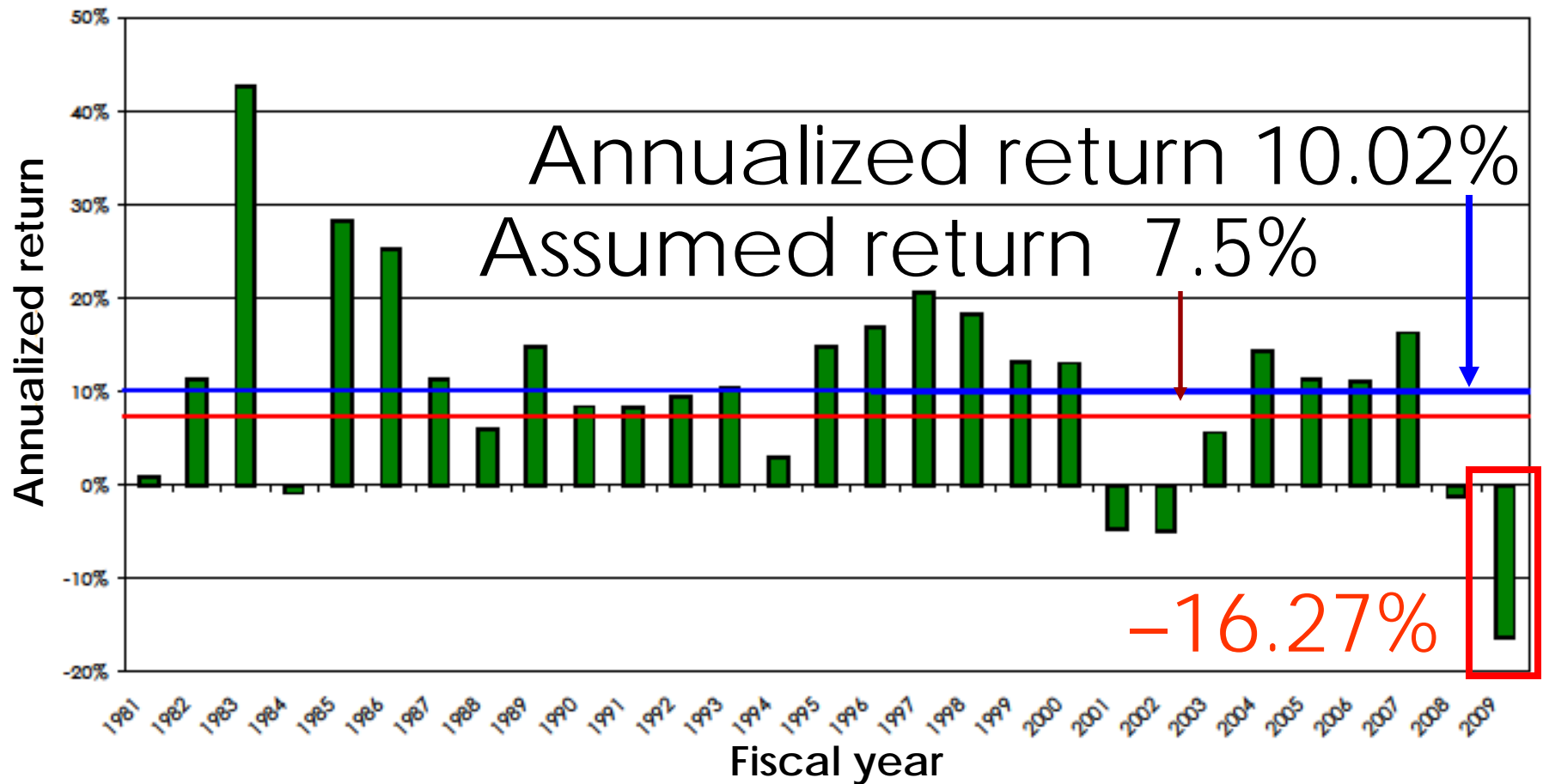
# Long-term look

## Investment returns 1981–2008



# One year later

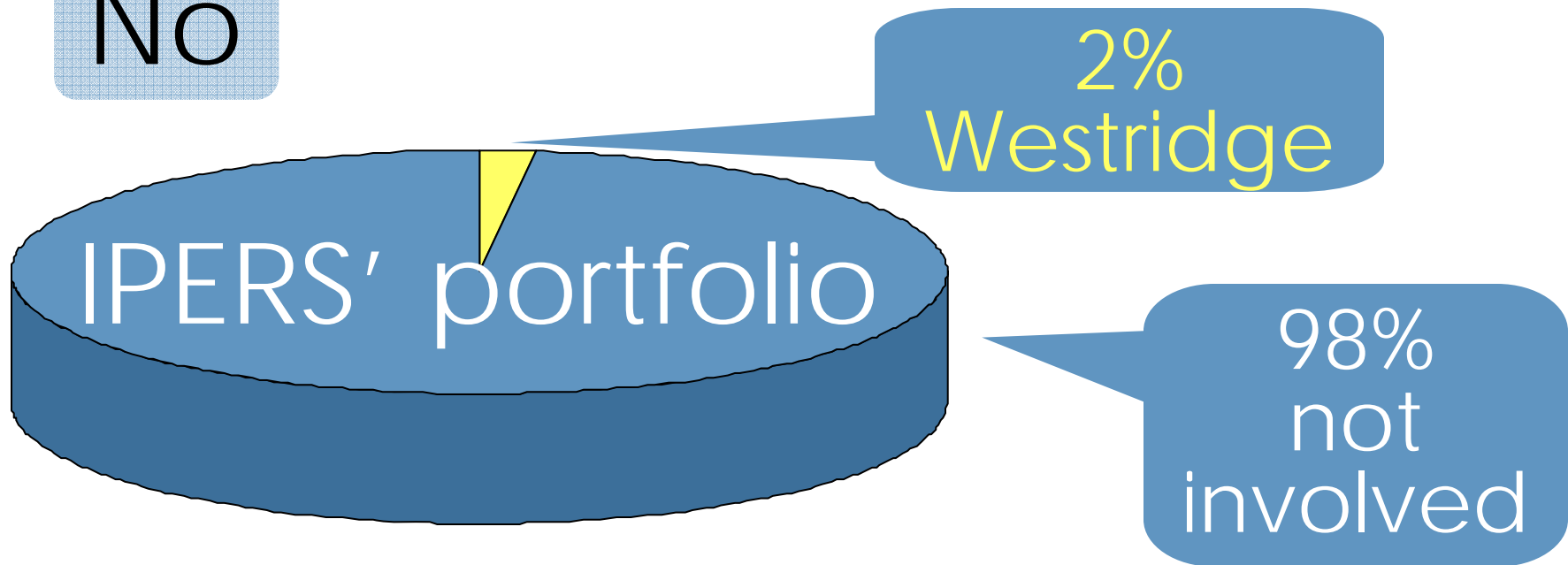
## Investment returns 1981–2009





# Because of Westridge?

No



Most Westridge loss from markets

Expected recovery >50% of remaining

Dozens of others affected

(e.g. 3M, Wells Fargo, University of Penn, ND Retirement)

# Public market returns

	<b>FY2008</b>	<b>FY2009</b>
U.S. stocks	-12.5%	-26.4%
Intl. stocks	- 6.2%	-30.5%
U.S. bonds	6.2%	4.9%
High-yield bonds	- 0.5%	- 4.2%

# IPERS' returns

	IPERS	Actuarial return assumption	Peers*
<b>FY2008</b>	- 1.33%	7.5%	- 4.36%
<b>FY2009</b>	-16.27%	7.5%	-18.76%

\*Median: TUCS Public Funds > \$1 billion

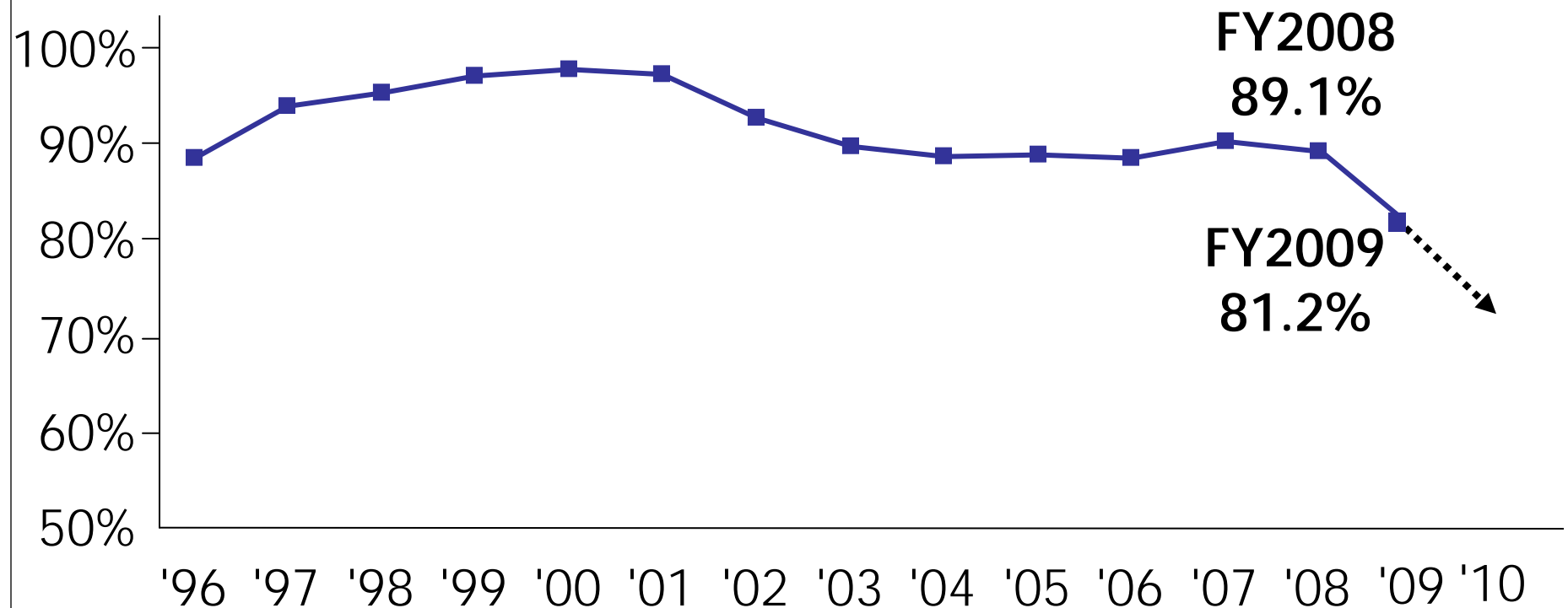
# Actuarial balance sheet



	FY2008		FY2009
Actuarial Assets (C + I)	<u>\$21.857 billion</u>	↓	<u>\$21.124 billion</u>
Actuarial Liabilities (B + E)	<u>\$24.522 billion</u>	↑	<u>\$26.019 billion</u>
UAL	<u>\$2.665 billion</u>	↑	<u>\$4.895 billion</u>

# Future funded ratio

(actuarial assets ÷ actuarial liabilities)



# Recession requires new action

- Past action → past underfunding
- Can't assume unrealistically high future investment returns
- Must address both sides of funding equation

# Rebalancing

$$C + I = B + E$$

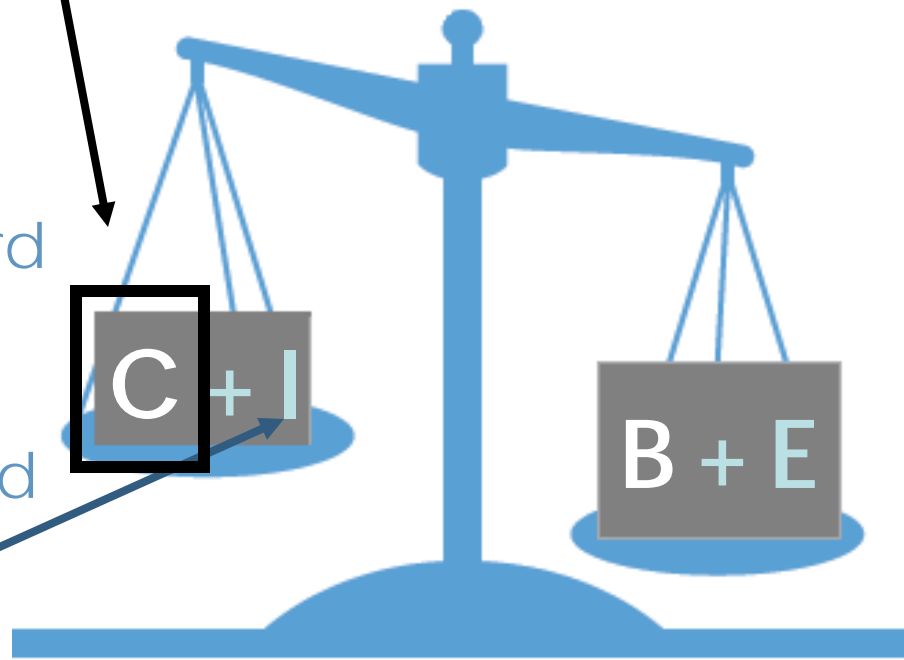




# Studies

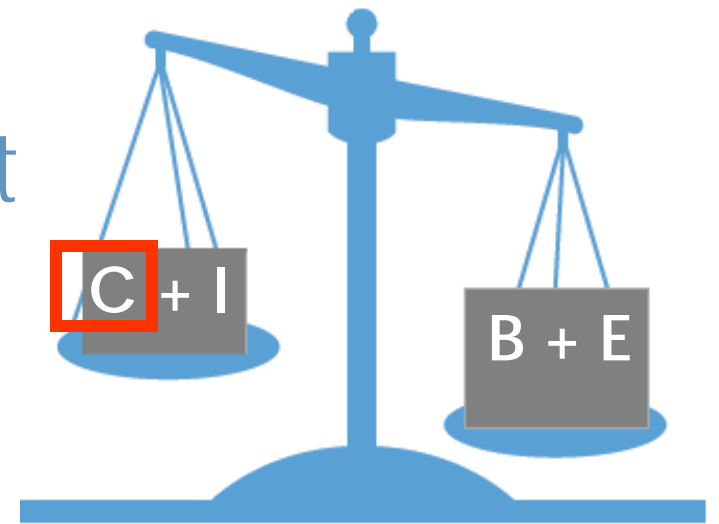
What's  
affordable?

Can't control  
markets; Board  
annually  
reviews asset  
allocation and  
risk vs. return



# Affordable contribution rate

- Planned increases not enough
- Last statutory increase FY2011
- IPERS to set rates starting FY2012
- Annual change limit 0.5 percentage point
- Regents: 15%



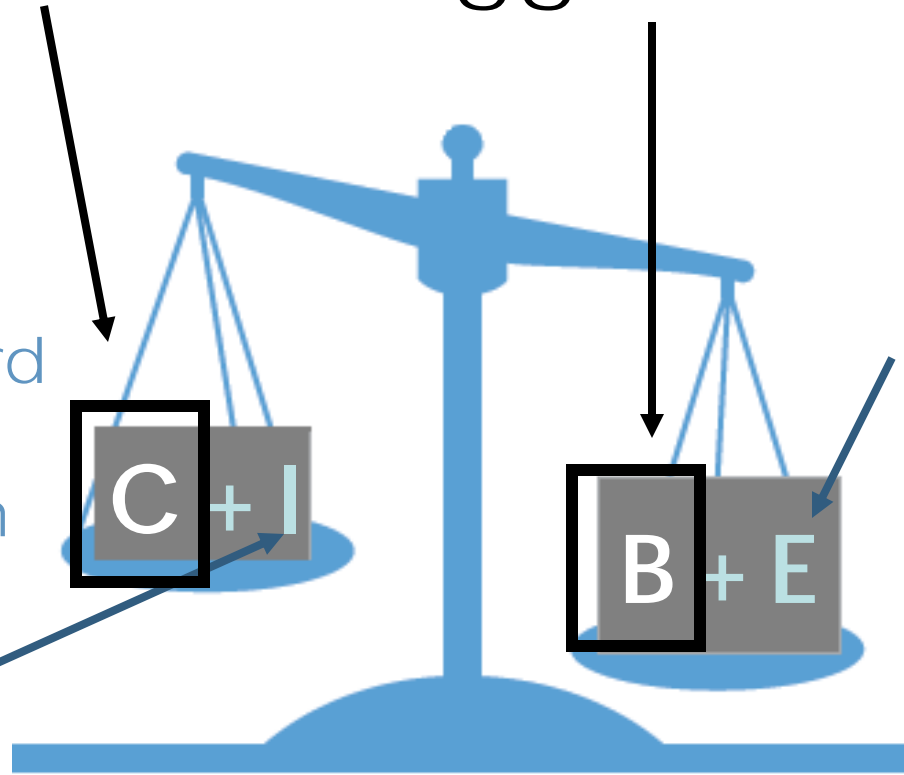
# Studies

What's affordable?

Can't control markets; Board annually reviews return assumption and risk vs. return

What are the biggest cost drivers?

Annually about ¼ of 1% of trust fund value; lowest admin. costs among peers



# Benefits

Biggest cost drivers\$  
\$  
\$\$\$retirement age\$  
\$\$\$\$\$\$\$\$\$(when)\$  
\$  
\$  
\$\$\$\$\$\$\$\$multiplier\$  
\$\$\$\$\$\$\$\$\$(how much)\$  
\$

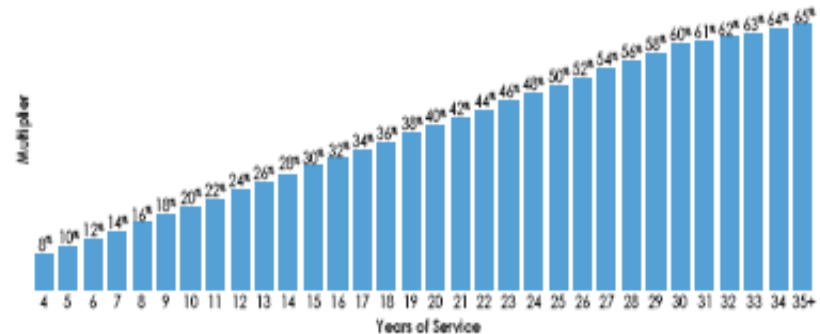
# Benefit multiplier

The greater the multiplier,  
the faster benefits increase

Benefit Formula: Final Average Salary  $\times$  Multiplier

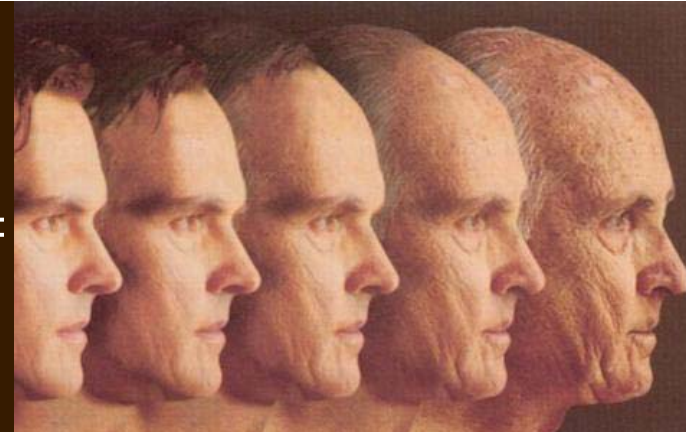
Current multiplier

- 2% a year for 30 years
- 1% a year in years 31–35
- Maximum 65%



# Retirement age

Earlier retirement =  
More years of benefits =  
Higher cost



Years

in retirement

149 retirees age 100 or older

# Rethinking retirement age

Longevity

Social Security age

Demand for lenient  
return-to-work rules

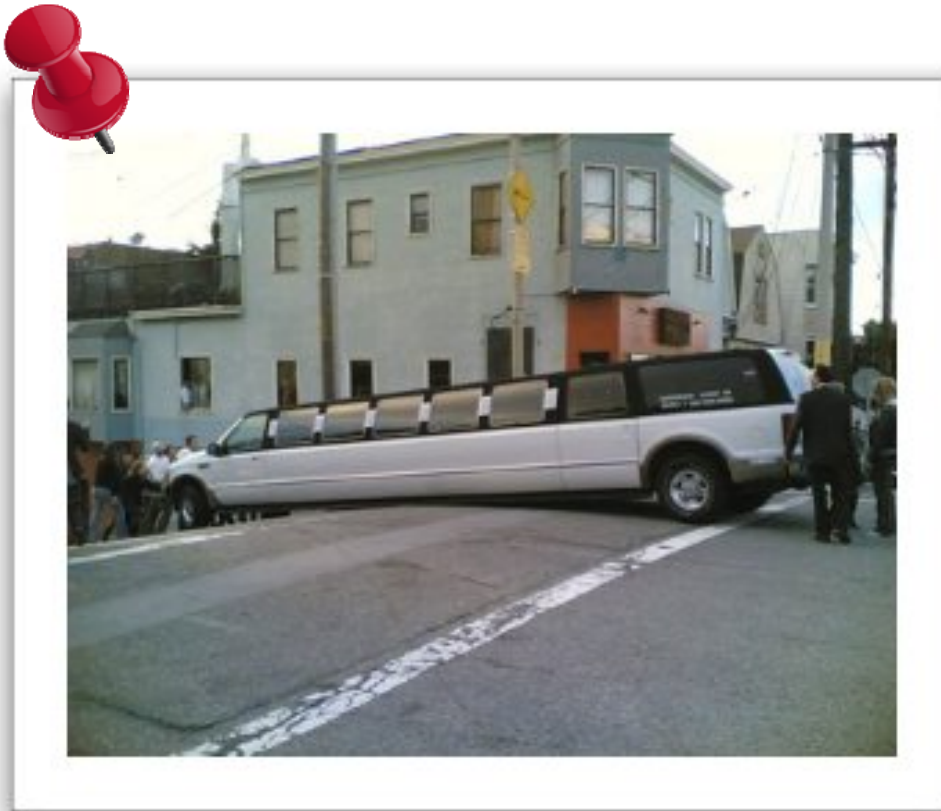
Number returning to work

Double-dipping concerns





# Murphy's law



Anything that can go wrong will.

# *Reasons for optimism*

Solutions exist

IPERS remains a solid plan

Valued employee benefit

Retirement security a priority

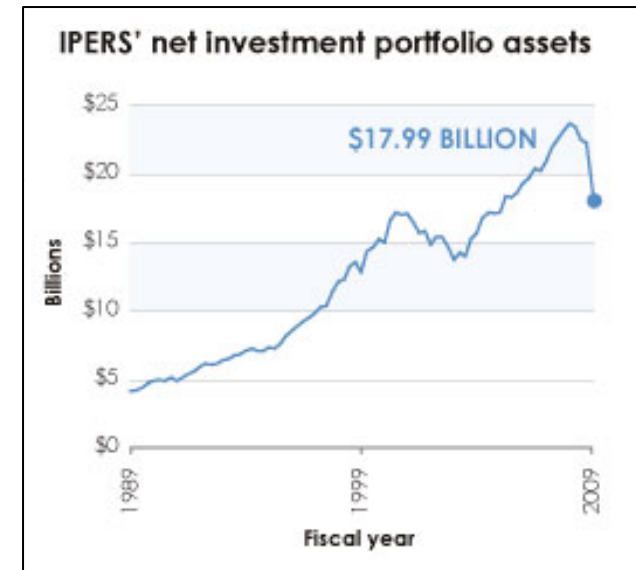
Recession's effect long-term but  
economy improving



# Investments

## FY2010

\$17.99 billion 6/30/09



10% July–Sept investment return

\$19.65 billion 9/30/09\*

\$19.86 billion 10/31/09\*

\*Est.



# Cost-of-living adjustment



\$1.00 in 1980

=

\$2.62 in 2009

Bureau of Labor Statistics

No traditional COLA in IPERS

# November Dividend

Base = last year's dividend

Increase = yearly benefit + last year's dividend × multiplier

Pre-July 1990

Base guaranteed by law

Paid from Trust Fund

No increase since 2001

Pay only base in FY2010

Median  
FY2009  
payment

\$650

# FED

## Favorable Experience Dividend

December benefit  $\times$  12 months  $\times$  multiplier  $\times$  years retired

July 1, 1990 and after

No guarantee

Separate account

Created with Trust Fund transfer

No more transfers if underfunded

Multiplier 1.07% since Jan. 2003

Median  
FY2009  
payment

\$654



# FED Reserve Account

Transfers from Trust Fund	\$602.3 million
Investment income	<u>220.6 million</u>
Total FED Reserve Acct	\$822.9 million
– Payments	<u>\$452.2 million</u>
Remaining	\$370.7 million

New transfer

Payments left

About 3 full years

Fully funded; stay fully funded

FY2009 est.

# FED Reserve Account

## Enough money to pay?

- Amount credited to account
- Previous distributions
- Future transfers and payments
- November dividend
- Other

*Decisions, decisions*



# Why pay FED in 2010?

Use of Reserve Account restricted

Cannot apply to UAL

Not much effect on funded ratio

Pre-1990 retirees get dividend

No Social Security COLA, rising medical costs

Economic impact of payment

# IPEERS policy bill 2010

Create bona fide  
retirement (BFR)  
exception for  
National Guard

IRS separation-from-work  
requirement; justifies  
payment of benefits

Extend 1-year BFR  
exception for licensed  
health care professionals

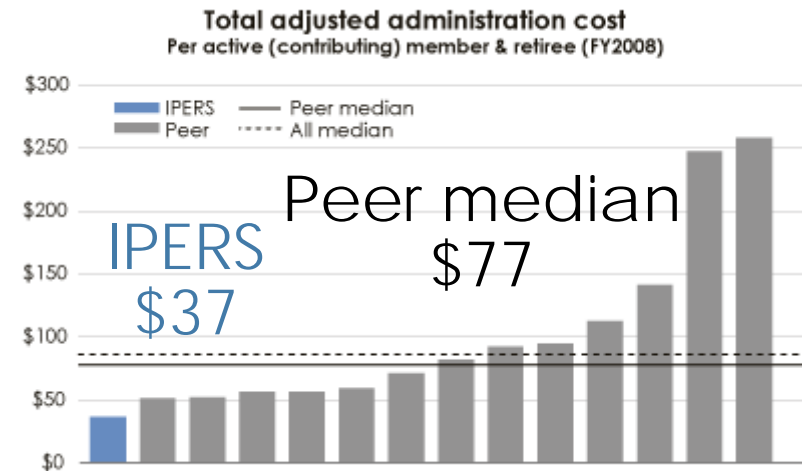
# IPERS' FY2010 budget

No General Funds

\$18 million budget

11% savings:

Personnel (FTEs; CEO and CIO salary; furloughs)	\$1,038,851
Travel and training	78,063
Printing, postage, purchasing, DAS rebate	221,496
Delay capital projects	665,000
Total savings	\$2,003,410



# Budget cuts & IPERS benefits

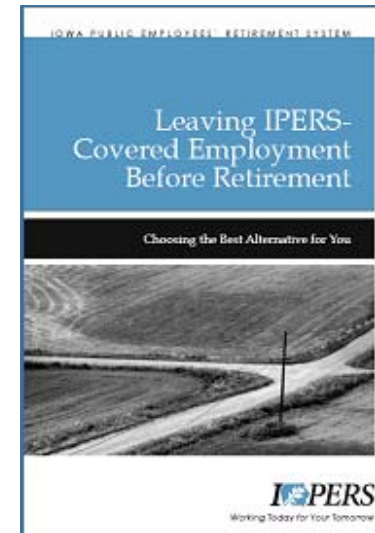
Q&A: IPERS and furloughs

Q&A: IPERS and layoffs

Benefit estimates

Leaving IPERS-covered  
employment before retirement

Early retirement incentives



# Don't forget

Eligibility for IPERS retirement benefits does not change because of employer-offered early retirement incentives



# News

www.ipers.org

The screenshot displays the IPERS website interface. At the top, the IPERS logo is visible with the tagline "Working today for your tomorrow." Below the logo, there are navigation links for MEMBERS, RETIREES, and EMPLOYERS. A red box highlights the "IPERS Central" link in the top right corner, which leads to a page titled "IPERS Central > BAC > Agendas and Minutes". The main content area features a blog post titled "The BAC, the Beatles, and backseat drivers" dated October 7, 2009. The blog post discusses the BAC members' interests and their role in the retirement system. A red arrow points from the "IPERS Central" link to the "BAC Meeting Agendas and Minutes" section. Below the blog post, there is a sidebar with links for "Member Login", "Employer Login", and "Contribution Rates". The "BAC Meeting Agendas and Minutes" section lists the agenda and minutes for the November 2 meeting, including links to the "Actuary's update on long-term funding studies" and the "Actuary's presentation on studies".

IPERS  
Working today for your tomorrow.

MEMBERS RETIREES EMPLOYERS

Benefit information, retirement calculators, and useful links

Postretirement benefits, returning to work, and more

Help for reporting officials and human resource professionals

IPERS Central >  
Who we are, the laws behind what we do, and opportunities for vendors  
Investments >  
The people who are in motion and the results of their work

HOME ABOUT ARCHIVE

IPERS UpFront

October 7, 2009

**The BAC, the Beatles, and backseat drivers**

A line from a Beatles song popped into my head as I thought about the smart, dedicated members of the BAC.

"We can work it out."

BAC members represent very different interests, but they came to the table ready and willing to work before the recession—a yesterday when all our troubles seemed so far away. They weren't just willing to criticize them.

BAC members are willing to take a turn in the driver's seat, knowing that it will be a long and difficult journey to secure retirement benefits for future generations.

After looking at several studies that examined only contribution rates as a solution, the BAC zeroed in on a more comprehensive study. They will study them and report to the BAC at its November 2 meeting.

Join me in IPERS UpFront as I blog about IPERS rumors and events.  
Donna M. Mueller  
IPERS CEO

IPERS Central > BAC > Agendas and Minutes

**BAC Meeting Agendas and Minutes**

Agendas and minutes open in a new window. Minutes are posted after approved by the BAC at its next meeting.

2009

Date	agenda	minutes	Notes
November 2	<a href="#">agenda</a>	<a href="#">minutes</a>	
October 5	<a href="#">agenda</a>	<a href="#">minutes</a>	<ul style="list-style-type: none"><li><a href="#">Actuary's update on long-term funding studies</a></li></ul>
September 14	<a href="#">agenda</a>	<a href="#">minutes</a>	<ul style="list-style-type: none"><li><a href="#">Actuary's presentation on studies</a></li><li><a href="#">Cost of Living Adjustment</a></li></ul>

www.ipers.org/blog

# Final thoughts

Benefits paid FY2009

\$1.044 billion in Iowa

Over 88% of  
\$1.183 billion total



Most of  
the rest to  
border states

☀️ Remainder to warmer southern states